



## The Constraints of World Capitalism in Catching up

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# **The Constraints of World Capitalism in Catching-Up**

**Jacques Hersh**

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# **The Constraints of World Capitalism in Catching-Up**

**By Jacques Hersh**

The aim of this paper is to discuss various aspects of the evolution of the world capitalist system as well as to raise general questions concerning governance and state capacities in the transition of late developers to market economies as well as the prospects of achieving economic parity with the highest developed capitalist countries. In terms of development this can be interpreted as attaining what modernization theory projected as the ultimate stage of economic activity in the form of the mass consumption society on the basis of the American Way of Life; that is the adoption of Western capitalism's production and consumption patterns as well as political norms. Although this model was tailored to counter the development strategies of the Soviet Union and other socialist countries during the Cold War (Rostow 1960), it does raise some interesting issues concerning the present international political economy.

## **Capitalist Development: Some Considerations**

One of the main critiques of the modernization school by the so-called dependency theory was based on the fact that the relationship of developing countries to highly developed capitalist countries was not put into question but considered to be entirely beneficial for the development process. In this light, the globalization problematique raises the issue of whether present day capitalism is conducive to the homogenization of economic levels of countries in the international system and whether states by internalizing and accepting the influence and rules which have emerged in the leading centers of capitalism stand a better or worse chance of acceding to the highest levels of economic development.

Divergent opinions and theories as to whether the international economy has held back or enhanced the economic development of the periphery have dominated the field of development studies. The empirical evidence shows that there has been both growth as well as decline. However, indicators of development show a continuing gap in the middle of the world distribution which is difficult to cross. In this regard it is no exaggeration to point out that the evolution of the capitalist world system has historically not equalized and harmonized economic levels between core and periphery. This axiom of dependency theory has recently been reconfirmed by the evidence provided by Angus Maddison (1995); based on a database of estimated capita income levels for all countries of the world since 1820, he produced the conclusion that income levels were much closer nearly two hundred years ago than they are today and that with few exceptions those countries with the highest incomes in 1820 are the same that have the highest incomes today (Sutcliffe 1999: 142).

Thus in order to understand the evolution of the international system it is of importance to have a critical ontological point of departure concerning the question of whether capitalism is to be considered as a benevolent system leading to harmonious relationships both on the internal and external plans. If this is the case then the question needing an answer is whether this benevolence has always been inherent in the world expansion of the market or whether this is a new characteristic. On the other hand, if we have a different conceptual framework and consider capitalism as a conflictual system leading to polarization on both the domestic and international levels, the question becomes one of whether societies should protect themselves (and how) from the dysfunctions of world market forces. Methodologically the answer to these issues has to be sought in the sphere of economic history and international political economy. Thus it is in this context that doctrines and praxis of

economic nationalism and socialism have to be seen, i.e. as attempts to break the monopoly of development.

Historically, capitalism can be considered as having been an ambivalent system: To the extent that it created the conditions for the development of the means of production and incorporation of extra-European regions of the world into the system it was considered to be dynamic and progressive. Especially from the vantagepoint of Europe. However, for what became the periphery, these areas became exposed to colonization, colonialism and neocolonialism: that is exploitation under different forms. At the same time control of innovations and technologies by the early developers, i.e. core capitalist countries, was crucial to their monopoly of economic power and maintenance of global inequality. As a development economist puts it, this state of affairs is not a past chapter and ought to be the concern of development studies: “I believe the subject of unequal control of key economic activities and innovations is still at the heart of a critical development theory:” (O’Hearn 1999: 114).

Historically the contradictory nature of world capitalism was recognized by different schools of thought. It was basic to the conceptualization of the Marxist tradition. Thus the authors of *The Communist Manifesto* displayed an acute awareness of the globalizing character of capitalism due to its internal contradiction: “The need of a constantly expanding market for its products chases the bourgeoisie (i.e. modern capitalist class) over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere.” At the time, Marx and Engels considered the transformations this entailed in the non-European areas as a positive evolution. “In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations.” (Marx and Engels 1848/1958:37 and 38) In other writings as well, Marx expressed positive views

about the expansion of European capitalism in extra-European areas such as India and China. It was after having studied the relationship between metropolises and colonies (especially in the case of England's domination of Ireland) that he came to realize that the colonial powers instead of unleashing local productive forces established obstacles to their development. This recognition opened the way for strategic thinking along anti-imperialist lines, which Marx expressed when hinting that socialism in Europe would depend on the liberation of the colonies from the metropolises. In an article called *Revolution in China and in Europe* he writes the following:

It may seem a very strange, and a very paradoxical assertion that the next uprising of the people of Europe, and their next movement for republican freedom and economy of government, may depend more probably on what is now passing in the Celestial Empire, -- the very opposite of Europe, -- than on any other political cause that now exists ... (Marx and Engels n.d.: 15)

### **“Socialism in One Country” and Nationalism**

Within the Marxist-Leninist tradition, imperialist theories emerged which not only propagated national liberation in the colonies but also called for rupture with the capitalist world system and for self-centered socialist economic development. In practice, however, the historical evolution was more complex. In the aftermath of the Russian revolution, which took place in a “backward” country, the Bolsheviks were not entirely of one mind concerning the relationship to the outside world; this led to a wavering of positions according to circumstances and the opportunism of leading members of the party leadership. But the hostility of the capitalist countries (especially the United States) played an important role in determining the outcome of these disputes. In concrete terms, the strategy of “socialism in one country” which emerged in the isolated Soviet Union was an attempt by Stalin to transform the external capitalist hostility into internal dynamism while maintaining control of anticapitalist

forces in the international communist movement to serve the interests of the USSR. As the historian E.H. Carr pointed out: “Socialism in One Country signified a turn towards self-reliance in economic policy and the Bolshevisation of the world revolutionary movement.” (Carr 1959: 56)

The economic strategy toward the capitalist world became a point of contention in the internal power struggle which developed following the demise of Lenin. Under the existing circumstances, Stalin’s identification with the mood of isolation reduced the chances of the opposition to defeat him. In the words of Charles Bettelheim: “This reaffirmation of the Leninist thesis concerning the possibility of constructing socialism in the USSR undoubtedly helped to endow Stalin both inside and outside the party with a prestige enjoyed by no other members of the leadership.” (Bettelheim 1976: 53) In addition, latent ties to the intellectual and political traditions of economic nationalism and Russian populism probably pushed in the same direction.

As is known, during the great economic capitalist crisis of the 1930s the Soviet Union implemented a forced industrialization by relying principally on its own forces; this evolution enabled the USSR to face the hardships imposed upon the country during the Second World War at the hands of Nazi Germany, albeit with half-hearted support from the United States. As a consequence of its own internal strength, the country was able not only to come out victorious of the conflict but to break out of isolation by imposing its control and social system on Eastern European countries. In Asia, the victory of the Chinese Revolution further invigorated the vision of an alternative international system to capitalism. In the post-World War II period, the economic recovery of the shattered Soviet economy and that of the other socialist countries proceeded at a relatively high speed. This was taking place at a time of confrontation with the West so the economic relations between the two blocs were rather limited. The



economic results were so positive that Stalin insinuated, in his last writing in 1952, at the possibility of the socialist camp coming into a situation of competition with capitalism on the world market:

It may confidently be said that, with the pace of industrial development, it will soon come to pass that these countries (the socialist states) will not only be in no need of imports from capitalist countries, but will themselves feel the necessity (my emphasis) of finding an outside market for their surplus products. (Stalin 1972: 31)

The idea that export constraints due to surplus or overproduction could become socialist economic categories was in fact in contradiction with the Stalinist system's own self-perception of "planned proportionality" as an economic "law" under socialism.

With the spread of proto-socialist systems in Eastern Europe and in Asia, intra-bloc tensions emerged at the expense of internationalism. Very soon, because of various tendencies both within the Soviet Union and the other countries, "socialism in one country" was not replaced by "socialism in several countries" but by several "socialisms in one country" (Emmanuel 1970:17) implying a high degree of national egoisms especially on the part of the USSR both under Stalin and the post-Stalin leadership. The populations of the Eastern European countries had not really been consulted, with socialism imposed on them from the outside as a result of the outcome of the Second World War as concretized in the Yalta Agreement. In the cases where genuine popular struggles for liberation and socialism had taken place, e.g. in Yugoslavia and China, discord with Moscow arose leading to the expulsion of Yugoslavia from the Cominform and the Sino-Soviet split. Simultaneously, Soviet troops had to be used to put down a rebellion first in Eastern Germany in 1951, later an uprising in Hungary in 1956 and the so-called Prague Spring in 1968. The course of peaceful

coexistence, which emerged during the Nikita Khrushchev era, further emphasized national egoism in the USSR and the development of international economic relations and its eventual reintegration in the capitalist world economy. This was taking place at the time when the United States was involved in a war in Indochina, threatening the security of Asian socialist countries (China, the DPRK, and Vietnam) as well as menacing Cuba. During the oil crisis in the 1970s, the Soviet Union became more interested in earning hard currency by selling to Western countries than in providing its socialist allies with petrol. (For a discussion of the Bolshevik view of relations to the capitalist world and the economic trade relations of the USSR from the seventies on, see: Brun and Hersh 1990)

Seen in this light the demise of the state socialist system in the Soviet Union and Eastern Europe can be said to have been a consequence of the inability of these countries to resolve the contradictions which relations to the world capitalist system entail. This was not only related to the economic backwardness of these societies but also to the shift of objectives on the part of the polity. The genuine political economy dichotomy revolves around the question of building socialism in a context of trying to adjust to external forces and influences by relying on economic nationalism. The case of the Soviet Union reveals the tensions and contradictions behind such a process. This historical experience has led some development theoreticians to portray the Soviet experiment as having been a failed attempt at catching-up to the developed capitalist nations.

While Marxism has proved to be a useful theoretical tool to understand the dynamics of capitalist expansion which divided the societies of the world into divergent units according to their economic levels, the applicability of Marxist analysis to the practice of socialist construction has been less successful. Nevertheless, the experience of the strategy of “socialism in one country” in the

Soviet Union as well as self-reliance in China showed that economic development and industrialization were possible outside the realm of world capitalist relations.

### **The Significance of Economic Nationalism**

The realization that having an open unprotected relationship to advanced capitalism was neither conducive to development nor to the evening out of differences between the different category nations was recognized rather early by another theoretical tradition of political economy, namely economic nationalism. The interesting aspect of this approach is that it did not reflect an antinomy to capitalism. Rather it was based on a realization that open economic relationships on the world market did not entail a positive-sum game to the benefit of all partners irrespective of their industrial level. In other words, free trade was not propitious to economic development as implicitly assumed by the theory of comparative advantage and the modernization school or, one might add the presently dominating neoliberalism, which is the ideological foundation of globalization.

The doctrine of free trade of course originated in England after the Industrial Revolution and was reflection of economic superiority. But it is often forgotten that before adopting free trade as the basis of its economic relations with the outside world, England had sabotaged the potential industrial development of India and China, not by free trade but by limiting these nations' cotton and silk exports access to its market. This had been done in order to nurture the "infant" industrialization of Britain. In his classic contribution "*The Economic History of India*," Romesh Dutt (1901) wrote:

It is, unfortunately, a fact, that in many ways, the sources of national wealth in India have been narrowed under the British rule.

India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and of Europe. It is, unfortunately, true that the East Indian Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufacturers in the early years of British rule in order to encourage the rising manufacturers of England. Their fixed policy, pursued during the last decades of the eighteenth century and the first decade of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw produce only, in order to supply material for the looms and manufacturies of Great Britain. (Quoted in Baran 1962: 147).

The economic history of capitalism in fact reveals that political intervention has always played a determining role in industrial development. In other words, state policies and capabilities have been of paramount importance. This is ignored in the present neoliberal economic discourse which focuses on “state failures”, i.e. political interventions in the workings of the market, which are considered to have been counterproductive to economic growth. To the extent that present neoliberalism does not accept that the state has, and has had, a determining role in the development of industrial capitalism, the doctrine remains ahistorical. On this basis, the system of politics and economics entails principles and beliefs claiming universal validity in the sense that any society following another course would do so at its own risk. These claims are related to an interpretation of economic history, which sees the evolution of the past two centuries as one long progression toward rationality and good sense. The milestones to this line of thinking were the publication of Adam Smith’s *The Wealth of Nations* in 1776, which theoretically laid the foundations for the case against precapitalist mercantilism, and the US Declaration of Independence, which made the case against feudalism and royal domination but underplayed the role of the American Revolution in the anti-colonial struggle.

With regard to neoliberalism, the present Anglo-American approach assumes almost “automatic” development as a result of the activities of individual economic actors rather than the deliberate strategy by a political agency. Consequently the unpredictability and unplannability of economies are seen as positive. It is noteworthy that in its 1980 *World Development Report*, the World Bank aimed at reconceptualizing the notion of development as nationally managed economic growth and proposing instead that from now on “development” be measured according to the degree of participation in and integration with the world market. Likewise “reform” was to be reinterpreted according to the extent market mechanisms were introduced (Munck 1999: 199).

### **Late Development Versus Market Rationality**

Counterposed to this conceptual framework, economic nationalism has been more concerned with “market failures” both at the domestic and international levels. Its basic assumption is that intercourse between nations is considered to be a zero-sum game, i.e. some are winners and some are losers. Economics is consequently considered in the context of geopolitics. As a matter of fact economic history tends to show that industrial late-comers have indeed relied on internal steering of the market and society by rigging the rules of the market and imposing a specific utilization of the economic surplus which could lead to industrialization. On the international level, a certain historical pattern in late development can be seen for example in the United States’ efforts to catch-up with Britain by behaving in a manner similar to the Meiji state system and postwar Japan trying to catch-up with the United States. All in all it can be said that “politics has been in command” in leading capitalist countries.

In contrast to the aversion of the neoliberal approach for interference with the market stands the historical school or the German school, which originated with Friedrich List who had learned much from his American mentor Alexander

Hamilton. According to this tradition, the logic for intervention in the workings of the economy is that societies left to their own devices did not automatically move from farming to small crafts to major industries through the numerous individual decisions of small merchants. This process necessitated the exercise of central power through a plan or incentive. List was aware that historically the British government had encouraged domestic manufacturing and the American government had discouraged foreign competitors. Reflecting on British protectionism, he wrote: “Not so much as a thread of (Indian cotton and silk) would England permit to be used. She would have none of these beautiful and cheap fabrics, but preferred to consume her own inferior and more costly stuffs.” (List 1885; Fairfield 1977: 48)

In his important book *The National System of Political Economy*, Friedrich List ironically commented the lack of consistency in what he called the “cosmopolitan economy” of Adam Smith and the British violations of free trade. The interesting aspect of this dispute is that Germany by implementing some of the guidelines of the Listian model was able to catch-up. With regard to Japan, although opened by the ascending United States during its emerging imperialist phase, the political leadership relied on guidance from the German school rather than on classical or neoclassical economic thinking.

By extension, the political economy offered by the theoretical contribution of economic nationalism of the German school has, according to some, had a more profound impact on the development of industrialization in Europe and East Asia than either Marx or Smith (Lind 1998). In the nineteenth century, the Listian conceptualization of late development and relation to the developed capitalist world had spread from Europe (including Russia) to extra-European countries like China, Japan, Korea and other countries while Indian nationalists readily drew inspiration from the same source (Szporluk 1988: 203). In the

1920s, a translation of List's National System appeared in Chinese (Henderson 1983: 217). While ultra-nationalist and fascist forces adopted the framework of economic nationalism, the neo-Marxist dependency school likewise implicitly followed in the same footsteps through its recognition of the world economy as a cause of underdevelopment and the recommendation of self-reliance and de-linking.

While the Listian model promoted government interference at the macro level especially with regard to the relationship to the outside world, (i.e. restrictive trading relations) and encouraging industrial investment, the New Industrialized Countries (the so-called NICs) in East Asia operating in a more complicated environment had to counteract peripheralization and structural deformation by establishing a strong state with economic as well as political capacities of steering society as well to a higher degree than the original doctrine predicted. Thus politics was put in command. As one development scholar put it:

Neo-Listian theory explained the success of the East Asian countries with reference to the strategic role of the state in taming domestic and international forces and harnessing them to a national economic interest, coining the term “developmentalist state” for the purpose (Hoogvelt 1997: 206).

Thus, the tradition of political economy known as economic nationalism was concerned with surmounting the hindrances to national capitalist industrial development in late-comer type societies through an active role of the state both in the mobilization of domestic resources and the protection of the national economic development from negative influences of international political and market forces. The relevance of the examples of East Asian strategies with regard to the problem of achieving development for Third World countries is evident. But the lessons have not really been incorporated in mainstream

development policy-making at the level of the Bretton Woods institutions such as the World Bank or the International Monetary Fund (IMF). This is not surprising given the fact that these institutions to a large extent are part of what is referred to as the “Washington Consensus” in critical development studies. As a matter of fact Friedrich List is paid little attention by the discipline of economics in Anglo-Saxon academia.

But political intervention with the workings of capitalist market forces is not restricted to catching-up countries alone. As a reaction to the world depression of the 1930s, which to a large extent was the result of the previous implementation of liberal economic policies in the developed capitalist core nations, a retreat to nationalism took place in the form of protectionism and regionalism of the world economy through bloc formations around regional powers. The crisis contributed to the coming to power of Nazism and Fascism in some European countries, strengthened the strategy of “socialism in one country” in the USSR, while social democratic and left of center governments implemented Keynesian macroeconomic strategies and policies in order to resolve the problem of overproduction and lacking demand. While Nazism and Fascism were defeated during the Second World War and the Soviet Union - as discussed above - came out of its isolation, the social democratic project of the “welfare state” was established especially in Western European countries. The social and political pressures on the political climate in these countries during that period made it possible to introduce and implement social security measures accompanying the expansion of the public sector especially through government created demand for infrastructural expenditures. The period was analyzed by among others Karl Polanyi (1957/1944) who documented the duality and alternance between the political realm and market forces under advanced capitalism encapsulated in the notion of “double movement.”



Thus while both the “developmental state” and the “welfare state” reflected political intervention in capitalist-type economies as protective measures against the market mechanisms, there is a basic difference between the two. The first was an elitist project involving the state bureaucracy and technocracy, the industrialist and business sectors, and the ruling political party. The relative autonomy of the state was based on an undemocratic type of corporatism, which excluded labor representation; as a consequence the governance form took on the pattern of authoritarianism. In the case of the welfare state, the type of state was of a social democratic nature attempting to turn the economy into what has been called “social Marktwirtschaft” (social market). This type of corporatism included labor, which implied special attention to the social sector. The relationship to the market is therefore fundamentally divergent. While the Keynesian welfare state limits the social consequences of market rationality by implementing measures to protect weak groups, the developmentalist state curbs market rationality as part of an industrialization strategy with less social concerns. (Amsden 1992; Wade 1990).

### **The Geopolitical Dimension**

Recognizing that the state plays an important role in both catching-up processes and socio-economic regulation should not be taken to imply that other elements can be ignored. In this respect it is necessary to bring in the ideological/political climate within the international political economy which existed after the Second World War. The examples which have been under discussion, were to a certain degree favored or disfavored by the confrontation between the US and the USSR affecting their politics of control within their so-called spheres of interests. Thus the East European societies were submitted to the imposition of socialism both from above and from the outside. Although semi-liberated from the capitalist world system their degree of autonomy was limited.

As far as East Asia was concerned, the existence of socialism in the region (especially China) contributed to an American strategy bent on supporting anticommunist states and developmental regimes. These followed policies at odds with the economic liberalism, which the United States was upholding but nevertheless accepted, by Washington. Future economic history will reveal to a greater degree than conventional wisdom acknowledges that the victory of the Chinese Revolution in 1949 played a determining role in shaping American foreign policy towards Japan and the rest of East Asia, including the two wars on the Asian mainland. (For a discussion of this question and the problems this created, see Hersh 1993).

With regard to the European-type welfare states, the internal pressure for greater social security would not have been sufficient by themselves; the existence of the Soviet Union was a motivating factor in bringing about a compromise between labor and capital and the acceptance by the United States of this model which simultaneously proved to be quite beneficial for capitalism. In retrospect, the example of the welfare state and the so-called “golden age of capitalism” undermined the Soviet Marxist interpretation of capitalism and spread the belief that capitalism could be crisis-free. This furthermore accentuated the crisis of these societies as contacts with the West increased as a result of the policy of coexistence.

What is being said here is that the post-World War II period was characterized by the existence of state formations which on the one hand were affected by the world economy as well as affecting it. Samir Amin enumerates three categories: state socialism, the post-colonial nationalist state, and the social-democratic welfare state, which forced accommodations on the capitalist world system. Their vitality was related to the preceding period which had seen the nearly implosion of capitalism in the 1930s and the Second World War:

None of these compromises made a complete break with the logic of capitalism, but all of them imposed upon capital respect for the movements that had resulted from the explosion of the contradictions of capitalism. In their unfolding, these compromises effectively toned down the devastating effects of economic alienation and polarization. But this phase is now over. Progressively eroded by its successes, even if partial by definition, this logic of compromise went down with the collapse of the system it had legitimated. One can only ask: Has the current return to the triumphalist discourse of liberalism, which believes once again in the end of history, only announced a tragic repetition of the earlier drama's successive scenes (Amin 1996: 3).

In the 1990s, the “capitalist developmental state” in East Asia has been under siege because of internal and external economic malfunctioning. First, the crisis of the Japanese economy, mainly due to domestic imbalances and the “bubble economy” but also as a result of US pressures to increase the value of the yen after 1987 and to liberalize and deregulate, created an untenable situation. Then the East Asian financial crisis followed which conventional wisdom ascribed to “crony capitalism” thereby ignoring the impact of the forced liberalization of these countries’ previously regulated financial markets. Now that the Cold War was over, there is no longer any need on the part of the United States to accept deviations from the neoliberalist course, which is being imposed on a more or lesser degree under the slogan of globalization. Under these circumstances, it is necessary to recognize that the antagonism of neoliberalism towards political intervention does not limit itself to the socialist state or the capitalist welfare state, or the nationalist Third World State but is also directed at the East Asian capitalist developmental state.

### **The Politics of Neoliberalism**

What is being implied here is that the previous strengthening and present weakening of the state in all these cases was the result of politics rather than the spontaneous workings of market mechanisms. This interpretation is given

credibility when we consider the formation of capitalist market economies. In this respect, economic anthropology is useful in establishing the evolution from pre-capitalism to the market economic system. Karl Polanyi (1957/1944) raises some interesting hypotheses as to the process involved and the results that can be expected from overemphasizing liberalism. One important hypothesis is that markets endanger social relations, i.e. the organization of social life, which previously had been ordered along complex and localized reciprocities, through monetary exchanges and contract regulation. This is not unsimilar to Marx's analysis of the labor contract and the precision is intended to refute the claim of mainstream thinking that economic life in itself is a reflection of transactions by rational egotists. A second point which is more salient to the discussion of the relationship of individual societies to globalization, is that markets arose out of the activities within the realm of politics and as far as modern times are concerned through the agency of states. Markets are not spontaneous outcomes of human nature to "truck and trade" but as the outcome of political action and decisions carried out in a planned manner. Accordingly, the conception of a free market is a utopian notion since history has shown that all markets are regulated in the sense that their parameters and scales are established and depend on state institutions. The last point which is of relevance to the future prospects of globalization is that Polanyi's historical analysis shows that markets can have such a socially disruptive nature that left to their own devices they lead either to socio-economic collapse or authoritarianism. As a consequence, the role of politics emerges as actors attempt to protect communities from the effects of the market either by strong anti-democratic government or the re-introduction of regulative measures and protective restrictions on the operations of the market (Scott 1997: 6-7).

Some critics of globalization see it as the attempt to establish a "second free market utopia" conceived as a single global market by neoliberalism (ibid.).

However, appearances may be deceiving to the extent that there is an apparent paradox in the present process of dismantling political interference with the market at the national level while at the same time creating a structure of rules and regulations as well as institutions promoting liberalization and deregulation both at the national and international levels. In order to avoid abstract reductionism, it is of importance to realize that neoliberalist globalization in fact needs the nation-state for the political support and implementation of the message. In other words, the state assumes the functions of a transmission belt for the institutionalization of globalization. In addition, it should be recognized that the US government plays a determining role in promoting American interests in international financial institutions as exemplified during the management of the Mexican debt crisis and the East Asian financial crisis in 1997. Furthermore, the personnel of these international institutions are products of higher educational institutions, which serve the objectives of multinational corporations. The structural adjustment programs directed at Third World countries and transitional economies of Eastern Europe and now East Asia are formulated with certain objectives in mind to promote certain interests in the better placed Western countries. But the implementation of the advice given by these institutions needs the cooperation and acceptance of the state apparatus of the recipient countries. Similarly the negotiations within the World Trade Organization (WTO) are carried out by state actors and necessitate their policy-making capability in order to have the rules and regulations respected. But this type of negotiations is a truncated process favoring the core nations who benefit from the unequal balance of forces in the world economy (On the role of the state in facilitating neoliberal globalization, see Chesnais 1994).

However, where the role of the state has indeed been reduced is within the public and social sectors whose functions had been to mitigate the malfunctioning of the capitalist system: the over-accumulation crisis, the profit

squeeze problems resulting from the labor/capital relationship, the intensification of international competition as a consequence of the tendency toward global overcapacity, and the massive growth of financial markets as a function of overproduction in the real economy and as a result of de-regulation. At present we see all kinds of fora where both globalization and regionalization of the world economy are discussed by political actors. This is evident with regard to the regional meetings, the GATT gatherings, and the G-7 summits between the members of the most powerful countries in the world. It is through gatherings of these nation-state politicians and representatives that the rules of the game for global expansion and competition are defined in order to serve the economic process of the world economy and the special interests of economic actors. Equally influential are the unofficial meetings such as the yearly World Economic Forum at Davos where what has been depicted as the transnational elite, comprising business executives, politicians and opinion makers discuss problems of the international economy and issue guidelines for policy-makers.

### **The Transition from State-Socialism to Capitalism**

It is with the realization of the importance of politics in mind present in the hidden discourse of neoliberalism and the so-called process of globalization that the evolution of former socialist societies should to be considered. The balance-sheet of the transformation which has taken place in Russia and Eastern Europe is not as positive as expected at the time of the demise of the so-called “command economies”. Russia has not moved from a situation of being on the verge of collapse (economic, political and social) with the prospect of disintegration and renewed internal. Despite the “assistance” of the West in the form of IMF loans, what has been attained is a kind of “kleptocracy - capitalism.” As a Russian economist puts it: “What is certain is that the parasitic character of the new Russian capitalism is even more pronounced than that of the predecessors. Not a single important new plant or factory has been built in

Russia in the last eight years. The economy is operating exclusively by utilizing productive capacity created under socialism.” (Menshikov 1999: 82). This is interesting to the extent that the political and economic elites are not interested in anything other than enriching themselves at the expense of the wealth created under the socialist system. These endeavors are not in contradiction with the interests of the West who is not really interested in the emergence of strong economies with the potential of autonomous development. As an economic analyst has pointed out:

The IMF-style “shock treatment” initiated in January 1992 precluded from the outset a transition towards “national capitalism”, -- i.e. a national capitalist economy owned and controlled by a Russian entrepreneurial class and supported as in other major capitalist nations by the economic and social policies of the state. For the West, the enemy was not “socialism” but capitalism (Chossudovsky 1997: 225).

In addition to the deterioration of socio-economic and political conditions for the population, the country’s national pride has been humiliated by the West during various international conflicts in the past few years; last but not least with the marginalization of Moscow during the Kosovo conflict.

In the case of the Eastern European countries, the results of transition have been uneven and problematic. Even a country like Hungary with the highest degree of market activity and a relatively larger share of the foreign investment inflows to the region has seen its industrial production fall substantially. The dilemma for Eastern European nations is that they have reneged on their past experience with state socialism without taking into consideration the implementation of developmentalist state strategies in order to surmount their difficulties. The political elites often uncritically adopted the neoliberalist discourse on economic policy-making without coming to term with the realization that it may be

truncated. In doing so they have thrown out the baby with the water by viewing the legacies of the previous system as liabilities. Regardless of what critics say, these societies had, however, not been unmitigated failures. High educational levels had been achieved, basic human needs guaranteed, and essential physical infrastructure constructed and maintained. One has to be aware of the large differentiations between the different Eastern European countries with regard to their histories, demographic situations, and physical resources; also their record on economic reforms and transition towards a market economy has varied. But as a general statement it can be said that ideological and political reasoning has determined their adoption of anti-statist and anti-institutionalist policies in contrast to the East Asian experience with capitalism. In the words of a team of institutional economists working on these questions:

A critical difference between the classic capitalism that the Eastern Europeans have tried to promote and the late-industrial capitalism that the East Asians have pioneered lies in the role of institutions in shaping the form, substance, direction, and pace of economic expansion. In the East European case, the role of institutions has been minimal; resource allocation has been left almost entirely to the market mechanism (Amsden, Kochanowicz, Taylor 1994: 2).

In this context it would be shortsighted to see the evolution of Eastern European countries exclusively through the prism of purely internal dynamics. What has been happening is that this process was complementary to the global discourse which emerged during the 1980s whereby major powers and financial capital promoted economic liberalization on the premise that states had acquired too much control of economies during the stagflationary period of the 1970s in the capitalist world. The convergence between external influences and internal trends is well described by a political scientist writing on this dynamics which also played an important role in the decomposition of Yugoslavia:



The West's euphoria over the collapse of communist states and its insistence on market reform, privatization, and slashed budgets as conditions for economic aid and trade paid little regard to the alternative hypotheses –that the crisis of these countries grew from governments that were too weak; that to achieve the prescribed measures required an extremely effective administrative capacity; that foreign creditors will lend only to governments that guarantee repayment; and that foreign investors demand favorable governmental regulations and political stability (Woodward 1995:16).

Another factor influencing the general trend towards neoliberalism especially in the Western dominated international financial institutions and their strong influence on Eastern Europe was related to the implicit fear of the rise of a strong and competitive form of state capitalism in East Asia:

At the time the East European transition began, those organizations (the Bretton Woods institutions, the IMF and World Bank) were themselves in the grips of a strong neoconservatism stemming from the United States's crisis of self-confidence. In reaction to the rise of the East Asian late-industrializers, American and hence Bretton Woods policies exaggerated the virtues of free markets and, by means of the conditions that the World Bank and IMF attached to their loans, limited Eastern Europe's policy menu. Eastern Europe has thus been assigned a place in the international economy roughly comparable to what it occupied in earlier centuries: that of a poor cousin in the division of labor with the rest of Europe (Amsden, Kochanowicz, Taylor 1994: 5).

It seems that the lessons of historical and modern capitalism have been forgotten in most countries implementing the transition from state socialism to market economies. What needs to be learned is that capitalism has to be considered from both an international political economy angle as well as from an economic theoretical understanding. Thus, how the international system influences the evolution of the units in the world capitalist structure as well as how markets have been politically constructed and maintained. The theoretical reminder of Karl Polanyi concerning the experience of Western Europe with capitalism

should not be dismissed: “The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism.” (Polanyi 1957/1944: 140). The importance of this interpretation was confirmed by the relative successful economic catching-up of the East Asian NICs as well as the transition by socialist countries like Vietnam and especially China towards market reforms. While Eastern Europe has followed a model which is close to the teachings of Adam Smith, the NICs relied more on economic nationalism involving an opposite approach to capitalism both with regard to the internal social structure of capital accumulation and the international division of labor and world economic structure than neoliberalism recommends. The above quoted team of economists put this difference in the following way:

The Eastern Europeans have faithfully followed a model that would have been familiar to Adam Smith. The approach of the successful late-industrializers, however, represent something distinct: it has been capitalist in orientation yet a significant departure from either textbook theory or eighteenth- and nineteenth-century Anglo-American capitalist norms. (Amsden, Kochanowicz, Taylor 1994: 3)

This is where the market reform movement which has taken place in China, offers some valuable lessons for students of transition from a command-type economic system to a market-guided one in a context of late development comes in. This transition is of course without precedent and there are no blueprints on the methods to be applied. In the Eastern European context and the Russian example, the overthrow of the former state socialism has been radical especially at the ideological, political and economic levels. It is as if these countries, instead of searching for societal innovation in order to catch-up to the richest countries, tried to implement a strategy which was congruent with their selective historical memory and the mythologies of the paragons of neoliberalism.

## **The Challenge of Chinese “Market Socialism”**

In comparison to these examples, China’s polity has to a greater degree retained the initiative. In contrast to Russia and Eastern Europe, China distanced itself from these post-socialist transformations to the extent that the country officially remains committed to some form of socialism. The concept of “market socialism” which was launched under the economic reform movement by the Dengist leadership reflects some ambivalence within the CCP towards the notion of making use of capitalist measures to construct socialism. Compared to the rapid deconstruction of the socialist structures under the impact of liberalization and marketization of the former command economies in Eastern Europe and Russia, one can interpret the Chinese approach as a radical strategy of change but with tactical moderation. While the other transformations and adaptations to globalization rejected the past, the political elite in China did not wish, or could not, implement a complete break with the legacy of the central planning economic system without calling forth immediate resistance.

While the rupture with the former socio-economic system in the Eastern European and Russian context took place almost simultaneously within the political sphere (glasnost) and the economic sphere (perestroika), in the Chinese case economic reforms were introduced first while political reforms were not given the same priority. The political reforms led to a loss of political control with adverse effect on economic restructuring in both Eastern Europe and Russia; in China, the process of economic reforms was maintained under the political control of the state/party authority. The consequences of the choice of option are of importance as the sequencing of the implementation of reforms plays an influential role. In the case of the countries that adopted political reforms first, their experience has shown definite shortcomings. These countries have neither achieved sustainable political stability nor viable economic success. The continuous turmoil in Russia (including the menace of national

disintegration) and the deterioration of the economy are interconnected with very little sign of improvement. The conditions in Eastern Europe are not quite as bad, but this may be ascribed to the attention and investment of Western capital. China, in contrast, has enjoyed rapid economic growth under a one-party type of political system and limited democracy.

In order to explain the disparity between these examples, the history of China is certainly a factor to take into consideration; the experience of the past both on the internal level and the relationship to the external world created a latent nationalist constituency which has been conscious of the country's position and role. The ambition of the Chinese leadership is thus not only one of establishing an economy which can create development and industrialization and the provision of employment for the expanding labor force as well as raising the living standard of the people, but there is awareness in the political sphere that China cannot rely on outside advice or assistance. Given its geographical location, China was able to observe at close hand the evolution of the East Asian NICs who under authoritarian regimes were able to muster the market mechanisms in the direction of industrialization and improve their positions in the international division of labor. On the other hand, another external influence on the Chinese political elite has been the experience of observing, probably with consternation, the meltdown of the former Soviet economy and social fabric as well as the deterioration of the international position of Russia.

Nevertheless, it is still unclear whether the lessons of the evolution of the outside world have been digested by the Chinese political elite and translated into strategic thinking. Concerning the Asian NICs, it is a fact that the willingness of the United States to accept the guided market model and the economic nationalism of these countries was related to Cold War considerations. Now that the socialist menace has also dissipated in the Asian region, the US is

becoming less tolerant of deviations from its own brand of capitalism and the neoliberalist discourse. This means that the international climate for the export-oriented model of catching-up, which these countries utilized, is reaching the end of the road. From now on the United States is getting readied to be more aggressive in its geoeconomic dealings with these countries. The way Washington influenced the IMF in the resolution of the financial crisis of Asian countries in 1997 showed that American interests are given predominance in what has become a unipolar world. Can China hope to get special treatment from its dealings with the United States? The two countries have different agendas and the non-recognition of these contradictions will only lead to tensions in the future. The days of the tacit US-Sino anti-Soviet alliance are gone!

While China strives to catch-up to the level of the highly developed capitalist societies, it is unavoidable that such a prospect is causing nervousness in the Western capitals of the world. According to World System Analysis, countries have been able to move from the periphery to the semiperiphery or core status and vice-versa during historical capitalism. Presently, there is limited space in the core category and the emergence of a powerful proto-capitalist economy in China would be much more of a threat to the capitalist world system than a self-reliant and isolated socialist China would have been. Viewed as a zero-sum game with winners and losers, the capitalist centers in the world cannot but look with apprehension at the evolution of China. Accordingly, both seen from a Realpolitik perspective as well as from an international political economy perspective, the integration of a united and powerful China is seen as a source of disorder. As expressed by a scholar writing on the possibility of rivalry in the international system puts it:

One may say that the falling apart of China is a precondition for the integration of (large parts of) China into the world market, because neither China nor the world market could stand the integration of all of China at the same time. (Junne 1999: 106)

The Chinese problem has been a question which already preoccupied Western imperialism in the 19th century. What was to be done with the sleeping giant was discussed especially in the Anglo-Saxon world. The enticing opportunities as well as the fears of conflict fuelled the Open Door policy of dividing China into spheres of influence in order to divide benefits between the imperialist nations and prevent the emergence of a strong united China. (For an analysis of these issues written 100 years ago see: “The Break-Up of China, and Our Interest in It” *The Atlantic Monthly*, August 1899). This question is still of actuality and seems to be encompassing other nations as well. Observing what has been happening to Yugoslavia as well as to Russia, it is not entirely far-fetched to conclude that the existing state structure of countries cannot be taken for granted. While profit-seeking economic actors might not be as concerned with inter-state relations, the geopolitical dimension of the world capitalist system emphasizes the salience of internal socio-economic and political developments in countries which can be a challenge to the existing world order under American hegemony. This is where the importance of Chinese “market-socialism” comes in.

Does the strategy behind this concept aim at integrating a strong China in the world system, then specific attention needs to be given to the viability and strengthening of the domestic society. While the “socialist” dimension of the equation aims at securing the cohesiveness of the political and social system internally, the “market” dimension aims at projecting China in the world economy and world system of nation states while simultaneously demanding adjustment to mechanisms which weaken the societal cohesiveness. This creates

a lopsidedness in the political system and the question arises whether it is the political sphere that controls the market like a “bird in the cage”, or whether it is the market that directs the party and the state. In the latter case, the results could be the utilization of authoritarian political structures of the Communist legacy combined with rather brutal socio-economic injustices of capitalism. As the American Marxist Bertell Ollman puts it: “Leaving most market mystification in place, market socialism cannot be viewed as just another form of socialism, or even a compromise with capitalism. It is a surrender to capitalism which for historical reasons continues to fly the socialist flag.” (Ollman 1998: 112).

It is possible that the post-Maoist market reforms can lead to an upsurge of economic growth as China in fact experienced during the 1990s. Though a far-fetched prediction, some analysts go as far as to anticipate that the Chinese economy will become the world’s largest economy by the year 2015. While the economic growth rate has thus been dynamic, the social results have not been very encouraging. Influenced by the reformist trends in Eastern Europe and Russia in the 1970s and 1980s as well as the successes of the Asian NICs the Dengist leadership did not aim at abandoning socialism’s emphasis on the maintenance of the political primacy of the Communist Party and control of the “commanding heights of the economy.” In other words, this perspective considered that capitalism was not necessarily an “organic whole” and that the material gains could be separated from bourgeois society and culture. As the Sinologist Maurice Meisner who makes this point, argues “... the most general and historically far-reaching result of market reform has been the construction of a capitalist economy that now functions in accordance with its own logic.” (Meisner 1999: 246).

Although the Chinese leadership still clings to the claim of socialist legitimacy and relies on a nationalist discourse, the unfolding of the economy reveals more

and more capitalist traits and shortcomings. The socio-economic system is thus characterized by wage labor which, although not entirely new, is becoming overwhelming; the country is becoming more and more integrated into the world capitalist economy (and its institutions, i.e. The World Trade Organization) with the latter becoming determinant in forcing the domestic Chinese economy to adapt to the rules set by the core nations; profit making has been generalized at the enterprise level and the economic life of the country; the labor force has become commodified through the policy of “smashing the iron rice bowl” in the countryside creating a reserve army of unemployed calculated to be around 200 million (including the so-called “floating population”); the promotion of entrepreneurship has had the effect of generating a new bourgeoisie who is becoming a social agent of capitalist development; new values have also seen the light which stress individualism at the expense of the collectivity. As Maurice Meisner puts it:

With the maturation of these policies in the early 1990s, especially the creation of a new bourgeoisie (albeit one with a strong bureaucratic component) and a labor market, China has had a flourishing capitalist market economy that functions largely within the norms that govern capitalism in general. (Meisner 1999: 242).

In this process, the social and political base of the CCP and its leadership is changing from the former laboring classes (workers and peasants) adhering to the socialist perspective to a still weak nationalist middle class. In other words, a rupture in slow motion with the Marxist project of socialism to the adoption of the Listian capitalist pattern of economic nationalism. Writing on the different social constellations in the two political projects, Roman Szporluk puts it in the following terms:

What the proletariat – armed with the doctrine of “scientific socialism” – was to Marx, the modern intelligentsia – the



intellectuals, technocrats, scientists, entrepreneurs, professionals and white collar workers – were to List. (Szporluk 1988: 145)

The class alliance, which the notion of “market socialism” entails, will thus have to satisfy at least two types of constituencies. The working classes being made to feel the pains of market reforms while segments of the emerging middle class are becoming disenchanted with the pace of political liberalization. Increasing integration in the world economy will submit the political leadership of China to further pressures and criticism with regard to both economic and political reforms.

Due to the size of its economy and size of the country, the modernization of China cannot but influence the evolution of the world. As discussed above, should China become an economic powerhouse this would impact on the structure of the international system forcing to find a way of dealing with it. A full-scale Chinese industrialization and integration in the world economy would be a destabilizing factor in the world balance of power both economically and politically. On the other hand, the failure of modernization through “market socialism” plunging the country into chaos and civil strife, would likewise represent a menace to the stability of the region as well as to the rest of the world. As an observer of the Asian scene who argues along those lines put it: “Either way, it is the dragon - not the East Asian tigers or the Japanese goose or the American eagle - that will spell the future of the Pacific Rim.” (Aseniero 1996: 193).

\* \* \* \* \*

In this paper the focus has been put on the significance of politics in the establishment of capitalism at both the domestic and the international levels.

While neoclassical economics assume that the market is an autonomous self-regulating arena, the paper has discussed the importance of the state behind the creation of conditions for the functioning of the market economy. The breakdown of socialist-type systems and the transition towards market economies has likewise been a political process and not the spontaneous unfolding of capitalist forms of economic arrangements. The world economy played a certain role of attracting these countries in the direction of integrating the world system; but this has not been a purely economic evolution as political influences have also been at work.

An interesting question with regard to the evolution of the capitalist world system is whether globalization represents a qualitative break with the mode of functioning of historical capitalism. Such a rupture would imply that it is easier now for nations of the periphery to access the category of the core. Put in another way: Does globalization open up for catching-up?

The argument can be made that by imposing neoliberalism as a discourse, ideology and practice, the core –through control of the five monopolies—aims at maintaining the division of the world in its present shape. Thus the weakening of the state in the periphery – which is the actor who historically played the primordial role in the economic development of industrial capitalism—becomes an implicit method for maintaining the countries of the Third World in a position of subservience and dependency relative to the core.

The advice of international financial institutions to the post-socialist political elites of transitional societies has also represented the interests of the hegemonic structure dominated by the United States. This was the case not only in Eastern Europe and Russia who implemented the IMF's so-called "shock therapy," but also the developmental states in East Asia were weakened through application of

adjustment programs following the financial crisis of 1997. The political aim of the measures, which were taken in collaboration with recommendations of the US Treasury Department, were to pry open these economies to the interests of Western financial and productive capital. In this regard a conclusion which can be reached is that globalization is not a purely economic process within the world economy but the result of the imposition of neoliberalism on countries through the establishment of rules and regulations determined to a large extent by the core countries of the world system especially as a function of the political influence and strength of the hegemonic power, the United States.

What we experience at this time is not the end of history as claimed by Francis Fukuyama, but the beginning of a new era where countries will have to adjust to the dictate of the only superpower in the world or resist and attempt to establish social/economic/and political structures enabling them to protect their interests. The history of world capitalism and its hierarchical structure show that the system is not one that establishes harmony and stability but that conflictual relationships arise. Catching-up or the establishment of alternative socio-economic systems demand special attention on the part of the polity in the concerned countries. Accepting the dominant ideological influence of neoliberalism which stresses the blessings of the market is neither a recipe for advancement in the world system nor creating harmonious social relations. In the end game, the menaces of such a structure is beginning to be realized even within circles of the international business elite. Thus the financier George Soros writing before the Asian financial crisis in the summer of 1997 warned of the consequences of generalized neoliberalism:

I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy of

the open society, I believe, is no longer communist but the capitalist threat (Soros 1997: 45).

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